NATIONAL TEA CO.

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1971 Annual Report

YEAR ENDED APRIL 3, 1971

TIME OF CHANGE

NATIONAL TEA CO. Executive Offices
8303 WEST HIGGINS ROAD, CHICAGO, ILLINOIS 60631

A Time of Change

The fiscal year just ended has, indeed, been a time of change for our company. One such change is the new home of National Tea Co. headquarters, shown on the cover of this report.

The new headquarters location is situated just off the Kennedy Expressway, near Chicago's O'Hare airport.

The modest, modern executive offices of National occupy three leased floors of this building. The new design of this structure reflects the new ideas and the new management attitudes that will move National forward to new successes in the seventies.

There are some fundamental changes being made that will streamline and improve the management of our company; changes that will unify us in a team effort directed toward greater sales and profits.

Your continued confidence in National Tea Co. is a matter of pride with the National management team. It is with renewed optimism and vigor that we face the future and the changes that will make National supermarkets a leader in our industry.

We are ready and on the move!

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President's Letter

To our Shareholders:

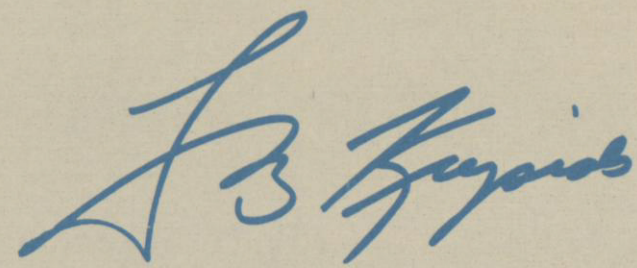
In the fiscal year ended April 3, 1971 we achieved sales of $1,590,854,763 and earnings of $7,635,822 as compared to sales of $1,512,282,211 and earnings of $9,868,421 last year. As of the close of our fiscal year we had 925 stores in operation. During the fiscal year thirty-two new stores were opened.

During the last half of our fiscal year the following new officers were elected: Paul Karukstis, Vice President—Finance and Secretary-Treasurer; Richard F. Schindler, Vice President—Marketing. We regret to inform you that Norman A. Stepelton, Vice Chairman of the Board suddenly passed away in August. Mr. Stepelton had been with National Tea for over thirty-five years, in many capacities. I am sure that he will be missed by his many friends.

During the last half of our fiscal year we developed and put into effect various new programs in all departments of the Company. As a result of our new management philosophy and programs, we are beginning to turn our Company around in terms of earnings; and I am confident that next year will be a successful turn-around year for the National Tea Co.

With the strength of capable and dynamic leadership, our new management team will use its skills and dedication more fully to meet the needs of changing markets and make our Company more successful in the years to come.

I look forward to a most challenging and bright future for our Company.



F. B. KRYSIAK
President & Chief Executive Officer

May 17, 1971

Management Changes

During the fiscal year Mr. F. Bruce Krysiak was elected President and Chief Executive Officer of National Tea Co. Mr. Norman A. Stepelton was elected Vice Chairman.

Mr. Paul Karukstis was elected Vice President, Finance; Mr. Richard F. Schindler, Vice President, Marketing. Mr. Karukstis was additionally elected Secretary-Treasurer.

Indianapolis Distribution Center

The new distribution center in Indianapolis opened in October, bringing 410,000 square feet of warehousing facility for dry groceries, fresh produce and frozen foods to that division of National Tea Co.

This highly mechanized warehouse embodies the latest innovations in order-selecting systems. Its conveyorized order line simultaneously assembles multiple orders with a minimum of handling.

The new system will show great improvements in the Indianapolis Division's distribution efficiency.

Manufacturing Changes

It is a decision of your new management to phase out certain of our manufacturing facilities. Production costs for products with limited distribution render it impractical to continue their operation. At year-end this program is near completion.

For the same reason, the pork and beef operation at Fergus Falls, Minnesota was sold in January of 1971.

Private Label Changes

The diverse number of private label brands in our stores will be drastically reduced. Our efforts in the development of brand loyalty will be focused on the Orchard Park brand.

With the reduction of National's manufacturing facilities, we are provided with an opportunity to select the finest food processors and suppliers to manufacture and package our Orchard Park products. Consequently, we will be able to provide our customers with the highest quality foods under the Orchard Park label . . . at lowest possible prices.

We are most optimistic about the ultimate success of our private label program.

Stores in Operation

At the close of our fiscal year, National Tea Co. operates 766 stores in 20 states.

Loblaw Inc., headquartered in Buffalo, N.Y. is owned 71.45% by National Tea Co. That company operates 159 stores in New York State, Pennsylvania, Ohio and the Los Angeles area of California.

Indianapolis Distribution Center
This 410,000 sq. ft. mechanized Merchandise Distribution Center was completed in October, 1970 and is one of the most advanced in the food industry.

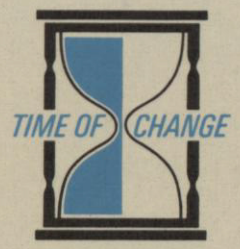
Financial Highlights

FOR THE FISCAL YEAR ENDED:	April 3, 1971	March 28, 1970	March 29, 1969	December 30, 1967	December 31, 1966
Sales	$1,590,854,763	$1,512,282,211	$1,192,627,535	$1,147,220,942	$1,190,494,686
Income before taxes on income	$ 16,748,251	$ 20,415,804	$ 14,380,880	$ 16,148,225	$ 19,128,775
Taxes on income	8,221,000	9,743,000	6,752,000	6,866,000	8,267,000
Extraordinary items, net of taxes	—	—	(435,000)	1,491,515	—
Minority interest	891,429	804,383	—	—	—
Net income	$ 7,635,822	$ 9,868,421	$ 7,193,880	$ 10,773,740	$ 10,861,775
Percent to sales	.48%	.65%	.60%	.94%	.91%
Per share*					
Before extraordinary items	$ 1.01	$ 1.30	$ .97	$ 1.18	$ 1.30
Extraordinary items	—	—	(.05)	.19	—
Net income	$ 1.01	$ 1.30	$ .92	$ 1.37	$ 1.30
Dividends per share	$ .80	$ .80	$ .80	$ .80	$ .80
AT YEAR END:					
Working capital	$ 68,374,421	$ 69,773,035	$ 72,967,585	$ 59,783,321	$ 57,676,864
Property and equipment	115,201,645	116,017,749	111,443,241	86,106,124	89,383,710
Long-term debt	41,401,079	47,533,008	52,579,626	22,305,258	25,758,274
Shareholders' investment	125,301,535	123,732,667	119,931,200	122,415,374	117,889,000
Shares outstanding	7,583,693	7,583,693	7,583,693	7,847,156	7,845,056
Book value per share	16.52	16.32	15.81	15.60	15.03
Supermarkets in operation	925	954	800	852	865

*Based upon weighted average of shares outstanding.

Consolidated Balance Sheet

ASSETS	April 3, 1971	March 28, 1970
CURRENT ASSETS:		
Cash	$ 12,437,144	$ 12,864,835
Accounts receivable	12,571,526	11,825,498
Inventories, at lower of average cost or market	125,646,936	116,886,048
Prepaid expenses, etc.	5,081,125	6,348,480
Real estate in process of development and sale	663,898	914,679
Total current assets	$156,400,629	$148,839,540
OTHER ASSETS	$ 3,510,137	$ 1,135,465
PROPERTY AND EQUIPMENT, at cost:		
Land	$ 3,805,280	$ 4,542,754
Buildings	9,985,671	15,533,856
Fixtures and equipment	168,496,069	162,336,896
Reserves for depreciation	(93,414,793)	(90,078,563)
Leasehold improvements, less amortization	25,640,997	22,994,385
	$114,513,224	$115,329,328
Cost of subsidiaries at dates of acquisition in excess of book value, net	688,421	688,421
	$115,201,645	$116,017,749
	$275,112,411	$265,992,754



The accompanying notes are

LIABILITIES	April 3, 1971	March 28, 1970
CURRENT LIABILITIES:		
Bank loans	$ 2,000,000	$ 3,000,000
Current maturities of long-term debt	4,431,840	4,499,394
Accounts payable	65,539,922	55,615,227
Accrued liabilities	11,257,372	10,607,856
Income taxes	4,797,074	5,344,028
Total current liabilities	$ 88,026,208	$ 79,066,505
LONG-TERM DEBT:		
Bank term loan, due semi-annually with final installment of $12,000,000 in 1976	$ 27,500,000	$ 30,500,000
5% sinking fund debentures, due 1977	5,760,000	6,202,000
4% promissory notes, due serially to 1973	3,800,000	4,800,000
Installment mortgage and chattel mortgage notes, maturing from 1973 to 1992	2,028,079	3,718,008
3½% subordinated debentures, due 1980	2,313,000	2,313,000
	$ 41,401,079	$ 47,533,008
DEFERRED INCOME ON SALE AND LEASEBACK	$ 1,945,596	$ —
DEFERRED INCOME TAXES	$ 4,282,287	$ 4,121,782
CAPITALIZED LEASE OBLIGATION	$ 2,200,000	$ —
RESERVE FOR SELF-INSURANCE	$ 800,000	$ 850,000
MINORITY INTEREST	$ 11,155,706	$ 10,688,792
SHAREHOLDERS' INVESTMENT:		
Common shares, $4 par value, authorized 10,000,000 shares; issued 8,756,788 shares	$ 35,027,152	$ 35,027,152
Paid-in capital (no transactions during year)	30,823,955	30,823,955
Retained earnings	78,174,019	76,605,151
	$144,025,126	$142,456,258
Less cost of 1,173,095 common shares in treasury	(18,723,591)	(18,723,591)
	$125,301,535	$123,732,667
	$275,112,411	$265,992,754

an integral part of this statement.

Statements of Consolidated Income and Retained Earnings

	Fifty-Three Weeks Ended April 3, 1971	Fifty-Two Weeks Ended March 28, 1970
INCOME:		
SALES	$1,590,854,763	$1,512,282,211
COSTS AND EXPENSES:		
Cost of sales, occupancy, buying and other operating expenses	$1,351,156,568	$1,291,730,973
Selling, general and administrative expenses	219,114,073	195,822,165
Interest expense, net	3,513,871	3,879,269
Profit sharing	322,000	434,000
Taxes on income:		
Payable currently	8,060,495	9,588,145
Deferred	160,505	154,855
	$1,582,327,512	$1,501,609,407
Income before minority interest	$ 8,527,251	$ 10,672,804
MINORITY INTEREST	(891,429)	(804,383)
Net income	$ 7,635,822	$ 9,868,421
Net income per common share	$ 1.01	$ 1.30
RETAINED EARNINGS:		
BALANCE—Beginning of period	$ 76,605,151	$ 72,803,684
ADD (DEDUCT):		
Net income	7,635,822	9,868,421
Dividends ($.80 per share)	(6,066,954)	(6,066,954)
BALANCE—End of period	$ 78,174,019	$ 76,605,151

The accompanying notes are an integral part of these statements.

Statement of Consolidated Source and Disposition of Funds

	Fifty-Three Weeks Ended April 3, 1971	Fifty-Two Weeks Ended March 28, 1970
SOURCE OF FUNDS:		
Net income	$ 7,635,822	$ 9,868,421
Non-cash items deducted in arriving at net income:		
Depreciation and amortization	16,885,079	16,948,856
Deferred income taxes	160,505	154,855
	$24,681,406	$26,972,132
Dispositions of property and equipment	6,302,020	1,312,746
Capitalized lease obligation	2,200,000	—
Decrease in working capital	1,398,614	3,194,550
Total	$34,582,040	$31,479,428
DISPOSITION OF FUNDS:		
Cash dividends to shareholders	$ 6,066,954	$ 6,066,954
Additions to property and equipment	22,370,995	22,836,110
Maturities of long-term debt	6,131,929	5,046,618
Other, net	12,162	(2,470,254)
Total	$34,582,040	$31,479,428

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

Long-Term Debt

Under the bank term loan agreement interest rates vary with the prime rate, being ¼% over prime on the portion to be repaid in semi-annual installments ($18,500,000) and ½% over prime on the final installment ($12,000,000). The interest rate at May 10, 1971, was 5¾% on the portion to be repaid in semi-annual installments and 6% on the final installment.

Aggregate maturities and sinking fund requirements under long-term loan agreements, exclusive of minor installments due on store building mortgage loans, are $4,431,840 in 1972, $5,176,800 in 1973, $7,512,200 in 1974, $4,711,900 in 1975 and $4,709,000 in 1976.

Dividend and Working Capital Restrictions

The bank term loan agreement contains certain restrictions among which are that the company will not pay cash dividends or reacquire its capital stock in an amount in excess of earnings subsequent to March 29, 1969, plus $3,500,000; accordingly, $69,303,684 of retained earnings at April 3, 1971 is not available for the payment of cash dividends or the acquisition of capital stock. In addition, the company must maintain consolidated working capital of not less than $55,000,000.

Under the terms of the indenture securing the 5% Sinking Fund Debentures, the company must maintain a current ratio of consolidated current assets to consolidated current liabilities, as defined in the indenture, of at least 2 to 1. As of April 3, 1971, the current ratio as defined was 1.85 to 1. However, the company has subsequently negotiated an increase of $10,000,000 in the amount of its term loan which will result in re-establishing the current ratio as defined to at least 2 to 1.

—continued on page 8

Sales and Leasebacks

During the year, the company sold and leased back certain of its operating facilities, including two warehouses. The facilities were sold for $7,300,000 which was approximately book value except for one warehouse on which a $1,946,000 gain was realized. The gain, net of applicable income taxes, is being amortized to income over the lease term. The other warehouse was sold to an affiliate and accordingly, for accounting purposes, the lease obligation has been capitalized.

Lease Commitments

At April 3, 1971, the company and its subsidiaries had 726 leases (some of which contain percentage rental clauses) expiring more than three years after that date with minimum annual rentals amounting to approximately $23,800,000 exclusive of taxes, insurance and maintenance payable by the lessee. Of this amount, approximately 55% applies to leases expiring within 10 years.

Depreciation

Depreciation is calculated using the straight line composite method for all assets except buildings and leasehold improvements at rates which will amortize the cost of the assets over their estimated useful lives. Buildings and leasehold improvements are depreciated at straight line rates over their estimated useful lives.

Deferred Income Taxes

Deferred income taxes arise principally from the use of accelerated depreciation methods for tax purposes.

Auditors' Report

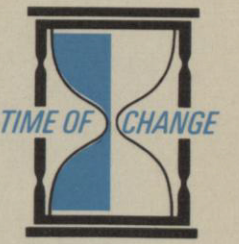
TO THE SHAREHOLDERS OF
NATIONAL TEA CO.:

We have examined the consolidated balance sheet of NATIONAL TEA CO. (an Illinois corporation 55% owned by Loblaw Groceterias Co., Limited) AND SUBSIDIARIES as of March 28, 1970 and April 3, 1971, and the related statements of consolidated income, retained earnings and source and disposition of funds for the fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements of Loblaw Inc. and Subsidiaries whose assets represent approximately 20% of the total consolidated assets were examined by other auditors and we were furnished with their reports on such consolidated financial statements.

In our opinion, based upon our examination and the reports of other auditors referred to above, the accompanying consolidated financial statements referred to above present fairly the financial position of National Tea Co. and Subsidiaries as of March 28, 1970 and April 3, 1971, and the results of their operations and the source and disposition of funds for the fiscal years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Chicago, Illinois,
May 10, 1971.



NATIONAL TEA CO.

Annual Report 1971

Board of Directors

GEORGE C. METCALF
Chairman of the Company, Chairman and President, Loblaw Companies Limited

EDWARD L. JONES
Vice President and Secretary-Treasurer, Loblaw Companies Limited

FRANK E. LINQUIST
Executive Vice President

RICHARD G. MEECH
Barrister and Solicitor

W. STRUAN ROBERTSON
Partner, Borden, Elliot, Kelly and Palmer, Attorneys

W. GARFIELD WESTON
Chairman of the Board, George Weston Limited

OFFICERS

F. BRUCE KRYSIAK President and Chief Executive Officer

FRANK E. LINQUIST
Executive Vice President

NAT MALT
Vice President, Regional Operations

WILLIAM H. LOWMAN
Vice President, Meat Operations

H. LAWRENCE MARTIN
Vice President, Personnel

ELWYN C. WINLAND
Vice President, Comptroller Management Information Systems

RODGERS N. BROWN
Vice President, Division Manager

PAUL KARUKSTIS
Vice President, Finance and Secretary-Treasurer

JOSEPH P. QUIRK
Vice President, Regional Operations

MARVIN E. CROSS
Vice President, Produce Operations

ROBERT E. SWAIN
Vice President, Store Planning and Equipment

ALLEN C. KING
Vice President, Director of Sales

ELMER E. MILLER
Vice President, Division Manager

RICHARD F. SCHINDLER
Vice President, Marketing

WILSON B. THOMAS
Vice President, Real Estate

JAMES E. COLLOTON
Vice President, Warehousing and Transportation

WILLIAM J. LEDERER
Vice President, General Counsel

LOWELL A. PETERS
Vice President, Division Manager

LEONARD ZARZYNSKI
Vice President, Institutional Food Services

NATIONAL TEA CO.

Executive Offices
8303 West Higgins Rd.
Chicago, Illinois 60631

DIVISIONAL OFFICES AND WAREHOUSES

Chicago, Minneapolis, Milwaukee, Indianapolis, St. Louis, New Orleans, Davenport, Denver, Sioux City, Youngstown

TRANSFER AGENTS

The First National Bank of Chicago
Chicago, Illinois

The Chase Manhattan Bank
New York, New York

REGISTRARS

Continental Illinois National Bank & Trust Company of Chicago
Chicago, Illinois

Chemical Bank
New York, New York

TRANSFER AND PAYING AGENTS

3½% Debentures
Chemical Bank
New York, New York

5% Debentures
Morgan Guaranty Trust Company
New York, New York

NATIONAL
TEA CO.